

Message Text

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ACTION EB-08

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OMB-01 SS-15 L-03 ITC-01 OIC-02 STR-07 /123 W

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TO SECSTATE WASHDC 2589

INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY PARIS

USMISSION USUN NEW YORK

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E.O. 11652: N/A

TAGS: UNCTAD, ETRD

SUBJECT: COMMON FUND - VIEWS OF THE GROUP B SPOKESMAN ON A
MINIMUM COMMON FUND COMPROMISE

1. THE NEW GROUP B SPOKESMAN ON THE COMMON FUND, AMB.
HESSEL OF FRANCE, CALLED ON AMB. VANDEN HEUVEL JULY 18 TO
DISCUSS HIS VIEWS ON A POSSIBLE FINAL COMPROMISE ON THE
COMMON FUND. AMBASSADOR HESSEL BASES HIS VIEWS ON WHAT
HE PERCEIVES TO BE THE ABSOLUTE MINIMUM THE GROUP OF 77
WILL ACCEPT AND THE ASSUMPTION THAT THE MEMBERS OF GROUP B
WISH TO MAKE A REAL EFFORT TO NEGOTIATE A COMMON FUND PRIOR
TO UNCTAD V.

2. THE TWO ABSOLUTE MINIMUM CONDITIONS FOR COMPROMISE ARE
(1) THE FIRST WINDOW MUST HAVE DIRECT GOVERNMENT CONTRI-
BUTIONS PAID IN IN ADVANCE OF ANY ICAS JOINING THE COMMON
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FUND AND (2) A SECOND WINDOW WITH A FINANCIAL ROLE BASED
ON VOLUNTARY CONTRIBUTIONS.

3. REGARDING THE FIRST WINDOW, HE BELIEVES THAT THE G-77
WOULD ACCEPT INITIAL CAPITALIZATION OF \$150 MILLION U.S.
THIS THEY COULD JUSTIFY BY RELATING THE \$150 MILLION TO AN
APPROXIMATION OF THE MFRS OF THOSE COMMODITIES FOR WHICH

ICAS ARE LIKELY TO BE NEGOTIATED OR RENEGOTIATED WITHIN THE NEXT THREE YEARS. IN OTHER WORDS, IF ONE ARGUED THAT THE COMBINED MFRS OF SUCH COMMODITIES AS TEA, RUBBER, TIN, COCOA AND SUGAR AMOUNTED TO 1.5 BILLION, THE \$150 MILLION WOULD REPRESENT 10 PERCENT OF THAT. THE 10 PERCENT FIGURE IS DERIVED FROM COREA'S ADVOCACY OF A \$500 BILLION CAPITALIZATION BASED ON THE ASSUMPTION OF FIVE TO SIX BILLION DOLLARS OF MFRS. THIS AMOUNT WOULD PROBABLY BE ACCUMULATED THROUGH A COMBINATION OF AN ASSESSED FEE ON ALL MEMBERS (PROVIDING POSSIBLY \$50 MILLION) PLUS THE BALANCE (\$100 MILLION) BASED ON THE UN FORMULA. THE CAPITALIZATION COULD BE AUGMENTED IN THE FUTURE THROUGH ADDITIONAL DIRECT CONTRIBUTIONS AS OTHER COMMODITY AGREEMENTS APPEAR LIKELY, E.G., IF A TWO BILLION DOLLAR COPPER BUFFER STOCK IS CONTEMPLATED, ANOTHER \$200 MILLION WOULD BE PAID IN PRIOR TO THE RATIFICATION OF THE AGREEMENT.

4. SINCE, UNDER THE SCHEME HE WAS THINKING ABOUT, THE AMOUNT OF EACH COUNTRY'S DIRECT CONTRIBUTION WOULD BE BASED ON THE NUMBER OF COMMODITY AGREEMENTS TO WHICH IT BELONGED, HESSEL THOUGHT THAT THE AMOUNT WHICH EACH MEMBER STATE CONTRIBUTES DIRECTLY TO THE FIRST WINDOW COULD THEN BE DEDUCTED FROM THE TOTAL AMOUNT WHICH IT WILL OTHERWISE CONTRIBUTE TO THE COMMON FUND THROUGH EACH PARTICIPATING ICA. (THUS IF A CASH CONTRIBUTION/CALLABLE CAPITAL RATIO OF 33 PERCENT/67 PERCENT WERE USED, THE APPROXIMATE LIMITED OFFICIAL USE

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INITIAL DIRECT CONTRIBUTION OF 10 PERCENT WOULD SIMPLY RAISE THE CASH CONTRIBUTION TO 43 PERCENT AND REDUCE THE CALLABLE TO 57 PERCENT LEAVING THE TOTAL OBLIGATION -- EXCLUSIVE OF A POSSIBLE LOSS RESERVE FUND -- AT 100 PERCENT. PRESUMABLY, FOR THE U.S. THIS WOULD MAKE NO DIFFERENCE IN THE APPROPRIATION REQUEST.) VIEWING THE COMMON FUND AS A "BANK FOR ICAS", HESSEL IS PROPOSING THAT DIRECT CONTRIBUTIONS BE USED (A) TO MEET START-UP AND RECURRENT COSTS (INCLUDING ADMINISTRATIVE COSTS); (B) TO ASSIST PRODUCER/CONSUMER GROUPS IN CONCLUDING NEW ICAS; (C) AS A LOSS RESERVE FUND; AND (D) TO PROVIDE SEED CAPITAL THAT WILL ENABLE THE FUND TO BORROW ON COMMERCIAL MARKETS AT LOWER RATES AND THEREBY LEND MONEY TO ICAS AT LOWER RATES.

5. AS TO THE SECOND WINDOW, HESSEL CONSIDERS THE MOST IMPORTANT FEATURE TO BE AGREEMENT THAT THE SECOND WINDOW WILL PLAY A FINANCIAL ROLE, I.E., THIS IS FAR MORE IMPORTANT THAN WHETHER THE FINANCING WILL BE DERIVED THROUGH ASSESSED OR VOLUNTARY CONTRIBUTIONS. HE FEELS THE G-77 ITSELF IS PREPARED TO DEFINE WITH SOME SPECIFICITY THE ROLE OF THE SECOND WINDOW IN FINANCING PROJECTS. HESSEL

INDICATED THE BELIEF THAT THE G-77 WOULD AGREE TO A FIRM SEPARATION OF THE FIRST AND SECOND WINDOWS.

6. THERE WAS ALSO SOME DISCUSSION OF THE IMPORTANCE OF THE VOTING ISSUE ALTHOUGH HERE HESSEL DOES NOT THINK THE G-77 HAS YET DEVELOPED A NEW COORDINATED POSITION. WE DID DISCUSS THE POSSIBILITY OF HAVING DIFFERENT VOTING PROCEDURES FOR THE FIRST AND SECOND WINDOWS. FOR EXAMPLE, VOTING IN THE FIRST WINDOW COULD BE BASED ON A MEMBER'S SHARE OF CONTRIBUTIONS WHEREAS IN THE SECOND WINDOW IT COULD BE ON A ONE COUNTRY, ONE VOTE BASIS WITH VOTES GIVEN ONLY TO THOSE COUNTRIES WHICH HAVE MADE CONTRI-

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BUTIONS TO THE SECOND WINDOW.

7. WITH REGARD TO HOW WE ARRIVE AT A BASIS FOR THE RE-OPENING OF THE NEGOTIATIONS, HESSEL TENDED TO FEEL THAT THE G-77 WAS VERY UNLIKELY TO SIGNAL ANY SHIFT IN ITS POSITIONS PRIOR TO THE REOPENING OF THE NEGOTIATIONS. HE DOES, HOWEVER, THINK IT MOST IMPORTANT THAT GROUP B REACH AGREEMENT TO SUPPORT THE TWO FUNDAMENTAL ISSUES MENTIONED ABOVE PRIOR TO THE CONFERENCE SO THAT THE QUESTIONS OF STRUCTURE AND VOTING COULD BE GIVEN GREATER ATTENTION WITH IDEOLOGICAL QUESTIONS ON THE BASIS FOR THE FIRST AND

SECOND WINDOWS ESSENTIALLY RESOLVED. HE THINKS THAT IF
GROUP B AGREES TO ACCEPT LIMITED DIRECT CONTRIBUTIONS TO
A FIRST WINDOW AND A SECOND WINDOW WITH A FINANCIAL ROLE,
BASED ON VOLUNTARY CONTRIBUTIONS, THAT IT SHOULD THEN BE
POSSIBLE TO NEGOTIATE A VOTING AND DECISION-MAKING
STRUCTURE WHICH WILL PROTECT GROUP B INTERESTS.
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VANDEN HEUVEL

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